

# SUMMARY ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Robert Pacheco Analyst: Kristina North Bill Number: AB 53

Related Bills: See previous analysis Telephone: 845-6978 Amended Date: March 1, 1999

Attorney: Doug Bramhall Sponsor:

**SUBJECT:** Personal Exemption Credit For Child/Allow Noncustodial Parents To Claim Credit

☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced December 7, 1998.

☐ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

☐ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

☐ FURTHER AMENDMENTS NECESSARY.

☐ DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED DECEMBER 7, 1998, STILL APPLIES.

☒ OTHER - See comments below.

### SUMMARY OF BILL

Under the Personal Income Tax Law, this bill would allow a noncustodial parent to claim a personal exemption credit for each child of that parent if that parent has paid all court-ordered child support, as specified.

### SUMMARY OF AMENDMENT

The March 1, 1999, amendment restructured the credit language and clarified that:

1) a "noncustodial parent" is the parent providing less than half of the child's support and the parent with whom the child does not live;

2) a "child" is a minor child or an unmarried child who is 18 or older, a full-time high school student, and not self-supporting; and

3) "court-ordered child support payments" are amounts ordered to be paid by the court for the support of a child or regular installments of delinquent amounts of child support ordered by a court. By defining "court ordered child support payments" to include regular installments of delinquent amounts, not all amounts owed, the number of individuals who could qualify for this credit grew, increasing the original revenue estimate.

In addition, the March 1, 1999, amendment removed a confusing reference to Internal Revenue Code section 152(e) and moved a requirement regarding courts determining child support from the Revenue and Taxation Code to the Family Code and changed the requirement to instruct courts not to consider the credit amount when determining child support.

#### Board Position:

☐ S  
☐ SA  
☒ N

☐ NA  
☐ O  
☐ OUA

☐ NP  
☐ NAR  
☐ PENDING

Department/Legislative Director

Date

Johnnie Lou Rosas

3/25/1999

The March 1, 1999, resolved all of the department's implementation and technical considerations. Except for the new technical considerations, the new revenue estimate, department costs stated below, and the Board Position, the remainder of the department's analysis of the bill as introduced December 7, 1998, still applies.

### **Technical Considerations**

In 1990, state law provided that the first dependent required to qualify a head of household could not be claimed as an exemption credit. AB 3086 (Ch. 846, Stats. 1990) removed that limitation, allowing a head of household to claim a dependent credit for each child. AB 3086 made other changes, including adding subsection (j) (amended to be subsection (k) by this bill) to specify a January 1, 1990, operative date for those amendments. According to the department's legal staff, the operation date for amendments made by AB 3086 is no longer necessary in the Code. The author may wish to delete subsection (k) to avoid any confusion as to when the provisions of this bill are operative.

### **Department Costs**

Total departmental costs to implement this bill are estimated at \$210,000 for 1999/2000 and \$165,000 in 2000/2001. The departmental costs would be attributable to potential taxpayer questions and taxpayer errors related to the new noncustodial parent dependent credit.

### **Tax Revenue Estimate**

The revenue impact of this bill, under the assumptions discussed below, is estimated to be as follows:

Revenue Impact of AB53			
For Taxable Years Beginning 1/1/99			
Assumed Enactment After 6/30/99			
Fiscal Years			
(In Millions)			
1999/2000	2000/2001	2001/2002	2002/2003
(\$195)	(\$200)	(\$205)	(\$210)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Any behavioral impact on taxpayer child support compliance is not anticipated to be particularly significant over the initial years. It is estimated that approximately \$2 million in credits claimed would be attributable to taxpayer behavior and would primarily be from those obligors who currently pay on a regular basis but are occasionally late with their payments for both current and arrearages. This minor incentive does not affect the rounded estimates above.

### **Tax Revenue Discussion**

Revised revenue losses above reflect an increase of \$15 million for 1999/2000, and \$20 million for fiscal years 2000/2001, 2001/2002 and 2002/2003 from the previous version of this bill. This increase is attributable to allowing obligor's who have arrearages to qualify for the credit if they are current with all child support, including installments of arrearages.

Based on information from the California Department of Social Services (CDSS), the U.S. Statistical Abstract and the department's personal income tax model, it is estimated that approximately 150,000 additional individuals would qualify for the credit with income averaging between \$18,000 and \$20,000. The average tax liability is estimated to be approximately \$120.

Therefore, under this amendment, approximately 150,000 additional individuals would qualify for the credit for an additional revenue loss of approximately \$20 million annually.

With the exception of allowing obligor's who have arrearages to qualify for the credit if they are current with all child support including installments of arrearages, our previous analysis and assumptions for this bill still apply.

### **Board Position**

Neutral.

At its March 23, 1999, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill as amended March 1, 1999.